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# Economic Intelligence Weekly

**Secret**

CIA No. 8036/74  
29 May 1974

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The oil situation is now being covered mainly in *International Oil Developments*, published each Thursday morning.

Note: Comments and queries regarding this publication are welcomed.

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## ECONOMIC INTELLIGENCE WEEKLY

## Articles

## US-SOVIET TRADE DOWN IN 1974

The US trade surplus with the USSR fell sharply in the first quarter. US exports to the Soviet Union dropped by nearly one-half compared with the first quarter of 1973; US imports meanwhile doubled from a much smaller base.

US deliveries of grain and soybeans dropped sharply as anticipated. Unless a bad harvest forces Moscow to buy more grain, total US deliveries of agricultural products in 1974 are expected to be less than half the 1973 level. US exports of machinery and equipment climbed rapidly in the first quarter, and will probably reach \$300 million-\$400 million for the entire year. Aggregate US exports to the USSR will probably fall short of \$1 billion in 1974, down from the \$1.2 billion of 1973.

## US-Soviet Trade

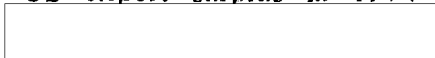
	Million US \$		
	1973	1st Qtr 1973	1st Qtr 1974
US exports			
<b>Total</b>	<b>1,187.1</b>	<b>310.2</b>	<b>165.3</b>
Grain	836.7	217.7	94.0
Soybeans	67.3	46.2	....
Machinery and equipment	204.3	27.1	51.1
Chemicals	16.8	5.4	4.8
Other	62.0	13.8	15.4
US imports			
<b>Total</b>	<b>213.7</b>	<b>46.4</b>	<b>98.9</b>
Petroleum products	75.6	6.2	41.5
Platinum and platinum group metals	75.0	30.5	41.3
Diamonds and other precious stones	17.3	1.6	3.4
Chrome ore	6.0	0.5	2.7
Nonferrous metals	4.3	3.1	3.8
Other	35.5	4.5	6.2

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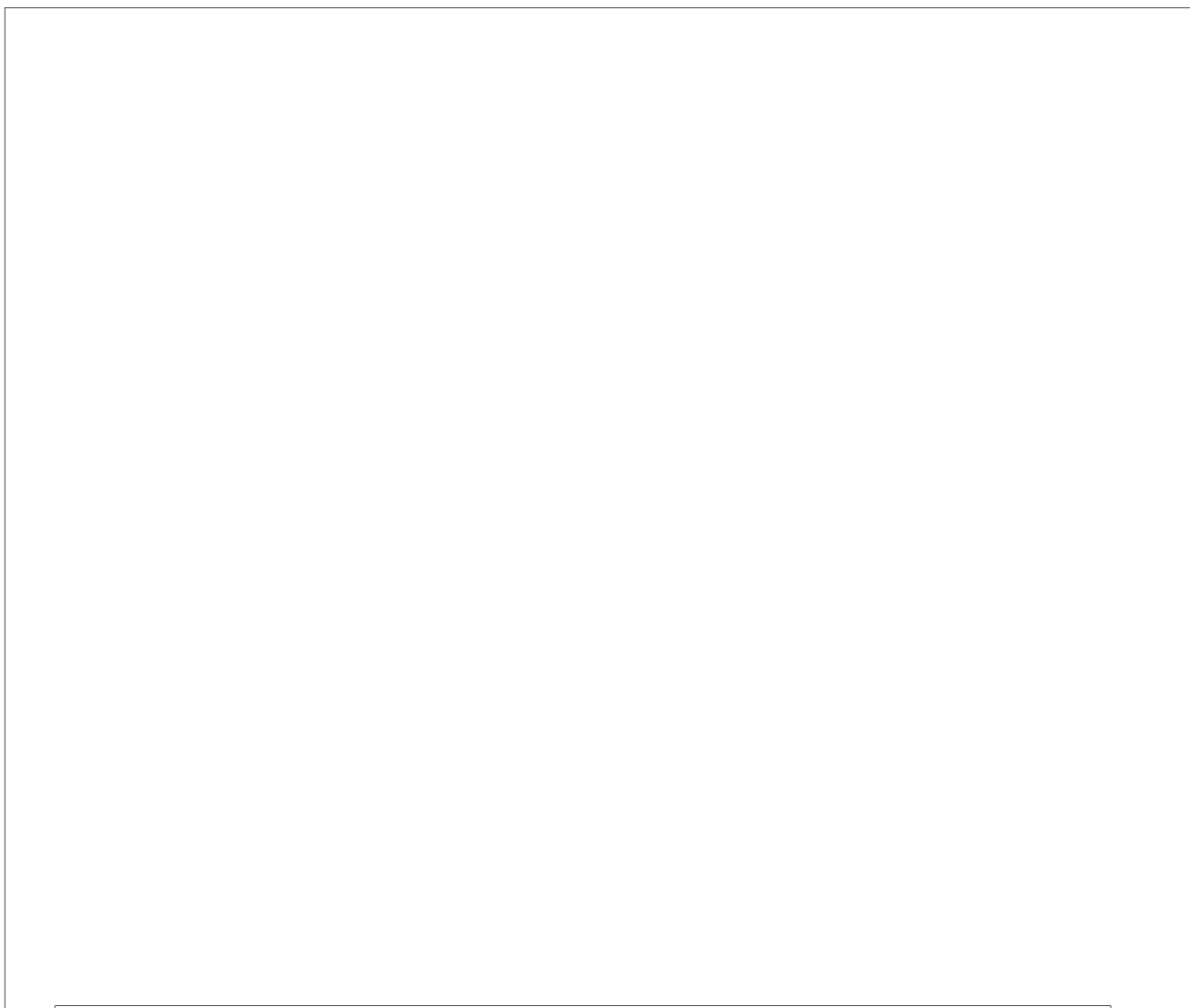
US imports from the USSR probably will set a record this year. The sudden increase in fuel oil imports thus far suggests at least a doubling compared with 1973. US imports of platinum group metals are also exceeding the 1973 rate.

While total US-USSR trade is likely to remain at about last year's level, the US export surplus in 1974 will be reduced to perhaps half that of 1973.

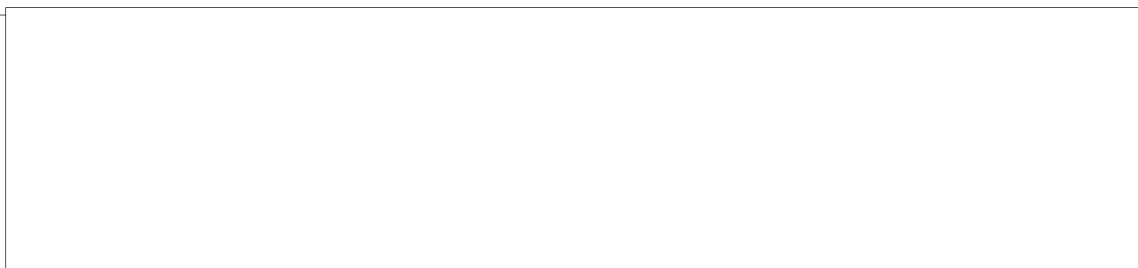


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**BANGLADESH: CRITICAL FOREIGN EXCHANGE SHORTAGE**

Foreign exchange reserves in Bangladesh have fallen precipitously and are nearly exhausted. Increased purchases of grain, costly outlays for fuel and fertilizer, and slow export growth have brought reserves down to only \$40 million, less than half the minimum legally required to back the national currency. The central bank has responded by restricting imports and calling in some of the nearly \$90 million in short-term credits extended to foreign jute buyers.

Unless imports are severely restrained, Bangladesh's trade deficit will exceed \$300 million in 1974. Foodgrain imports will offset more than half of export earnings, leaving little to finance essential non-food imports. Prices for Bangladesh's principal exports, jute and jute goods, have not increased nearly enough to offset increased import prices. Bangladesh has requested standby assistance from the IMF and is expected to ask the United States for substantially more than the \$39 million worth of PL-480 aid proposed for FY 1975.

The deteriorating balance-of-payments position is only the most immediate problem in a desperately sick economy. There has been little new investment to increase the capacity of the economy. The current rate of inflation is about 30%, and prices of essentials average two and one-half times higher than in 1970. Industrial production is down 30% from 1970 levels. Rice production has declined steadily since the peak 1969/70 crop; meantime the population expands unchecked, at about 3% a year. At this juncture, new foreign aid will have its effect more on the degree of hunger than on rates of investment and economic growth.

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**MILITARY AND ECONOMIC AID TO HANOI**

While continuing military assistance to North Vietnam at lower levels, Hanoi's Communist allies are stepping up economic aid.

Military aid has fallen sharply since the January 1973 cease-fire agreement, reflecting reduced combat in Indochina. Deliveries in 1973 fell below \$300 million, or less than one-half of those in 1972, when Hanoi received large quantities of ground forces and air defense equipment. Receipts probably will fall again in 1974. Hanoi already has large stockpiles of military equipment in the south and could conduct major military operations for an extended period without a concomitant rise in military imports.

**Estimated Communist Aid to North Vietnam**

	Million US \$						
	1968	1969	1970	1971	1972	1973	Total
<b>Economic aid</b>	<b>615</b>	<b>685</b>	<b>610</b>	<b>620</b>	<b>375</b>	<b>510</b>	<b>3,415</b>
USSR	305	385	345	320	210	200	1,765
China	120	90	60	105	90	225	690
Eastern Europe <sup>1</sup>	190	210	205	195	75	85	960
<b>Military aid</b>	<b>530</b>	<b>315</b>	<b>190</b>	<b>285</b>	<b>610</b>	<b>295</b>	<b>2,230</b>
USSR	415	175	90	165	375	175	1,395
China	115	140	100	115	230	115	815
Eastern Europe	Negl.	Negl.	Negl.	5	5	5	20 <sup>2</sup>

1. Including small amounts from North Korea and Cuba.

2. East European military aid in any single year prior to 1971 is negligible, but the cumulative value of \$5 million for the pre-1971 period is included in the total.

Economic assistance is again on the upswing. Deliveries recovered to about \$510 million in 1973 from \$375 million in 1972. China became North Vietnam's major supplier for the first time since before the war. The recovery of Soviet and East European shipments was hampered because mine-clearing and dredging operations did not fully restore Haiphong's port capacity. In contrast, China was able to supply increased amounts of food, petroleum, and other commodities via overland routes.

Economic aid should rise again in 1974 and Moscow should regain its position as the major supplier. North Vietnam's requirements for food, fertilizer, and petroleum remain high. The pace of reconstruction should pick up now that damage surveys have been completed and Haiphong has been restored to its pre-mining capacity.

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**US-USSR LONG-TERM COOPERATION AGREEMENT**

The US-USSR Commercial Commission approved a draft of a 10-year economic, industrial, and technical cooperation agreement in Washington last week. The conferees recommended that the agreement be signed at the Nixon-Brezhnev summit scheduled for late June.

The Soviets have negotiated similar agreements with all major non-Communist trading partners except the United States and Japan. Since early 1973, agreements have been signed with West Germany, France, Austria, and the United Kingdom. Moscow also renewed a pact with Italy in 1973.

The Soviets seek government-to-government cooperation agreements because:

- The agreements provide a bureaucratic framework for negotiations and, to the extent that they include specific projects, assist long-term Soviet planning;
- Mixed governmental commissions and subordinate working groups established under such agreements can monitor progress in designated areas and can bring problems to the attention of high officials;
- Western parties to these agreements feel a responsibility to encourage private business participation in the programs for technical exchanges, trade expansion, and resource development.

For their part, most Western governments feel that the good will gained is worth their general commitment to facilitate Soviet discussions with private firms. Where governmental involvement in the private sector is more extensive, as in France and Italy, agreements have included more specific trade and technological objectives.

The US-Soviet draft agreement is perhaps the most noncommittal of all the long-term cooperation agreements Western governments have negotiated with the USSR. The desirability of long-term cooperation, although upheld, is couched merely in terms of encouraging discussions between private US firms and official Soviet agencies. The US-USSR agreement may also be unique to the extent that it calls for an annual exchange of economic and financial data.

Judging from the results of similar Soviet agreements with other Western nations, the agreement will not have a large impact on US-Soviet trade. The expansion of trade and economic cooperation into new areas will depend largely on the willingness of US firms to do business with the Soviets. Even in the case of France and Italy, trade has often been frustrated by the reluctance of the private sector to conclude deals or to accept low-quality Soviet goods.

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## DEVELOPED COUNTRIES: COORDINATION OF EXPORT CREDIT TERMS

A gentleman's agreement to end the export credit race is being discussed by OECD members in Paris. It would be an integral part of any standstill agreement under which signatories would refrain from unilaterally restricting imports and artificially stimulating exports. Genuine coordination of credit terms is highly unlikely because of varying national attitudes and objectives.

Agreement on minimum rates for official export credits should pose the fewest problems. Official rates now vary by about three percentage points between Bonn's high bid and Tokyo's low; most cluster around the 7% mark. The effective cost of credit depends on several other factors as well, the most important being the share of export credit assumed by official entities. Washington's Eximbank, for example, provides only 45% of a loan, compared with the 85% carried by Paris, Rome, and London. As a result, US export credit terms are among the least competitive even though commercial interest rates generally are low.

The EC Commission has proposed a 7% floor on official export credits, with maturities of 5 years for developed Western countries, 8-1/2 years for the USSR and Eastern Europe, and 10 years for LDCs. The Commission's proposal, which probably will be considered in Paris this week, makes no attempt to control the share of governmental participation.

### Export Credit Terms

	Percent					
	France	West Germany	Italy	Japan	United Kingdom	United States
Share of loan officially financed	85	60	85	70	85	45
Official interest rate	6.75	9.1	7.00	6.25	7.00	7.00
Commercial prime rates <sup>1</sup>	13.70	12.50	14.50	11.00	13.25	11.25
Guarantee/insurance charge	1.03	0.67	0.32	0.40	0.57	0.50
Effective cost of credit	7.95	10.73	8.17	7.80	8.02	9.61

1. Mid-May 1974.

(UNCLASSIFIED)

As might be expected, Bonn endorses the Commission's proposal as a means of narrowing the gap between its own stiff terms and those of other governments. Tokyo supports such a proposal because of fear of a trade war. Paris appears lukewarm about any limitation on the export drive it deems essential to balancing French trade by 1976. Rome and London, faced by the largest trade deficits in the industrialized world, may ask for special consideration in any agreement on export credit terms.

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## Notes

**Iran: Credits for Cairo and Damascus**

In his boldest economic aid gesture to date, the Shah agreed in principle to credits of \$870 million to Egypt and \$150 million to Syria in negotiations concluded this past weekend. The Egyptian package includes (a) loans for the reconstruction of Port Said and for several industrial projects, (b) credits to import Iranian industrial and consumer goods, and (c) agreement to participate in a Suez to Port Said oil pipeline and to assist in widening the Suez. The Shah would get a commercial outlet, including port facilities, on Egypt's Mediterranean coast. Syria would get technical assistance and credits for badly needed fertilizer and meat-processing plants. [redacted]

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**New Import Restrictions for Israel**

Tel Aviv has reimposed a compulsory deposit on some imports in an attempt to dampen inflation. Like similar Italian and Danish measures, the move requires importers to deposit (in non-interest bearing accounts at the central bank for one year) 20% of the value of imported goods that carry a duty of more than 10%. The availability of foreign exchange is not an immediate problem in Israel as in Italy; the major benefit from this measure will be a reduction in excess purchasing power. The import deposit scheme is aimed particularly at luxury goods. The bulk of Israeli imports - food, raw and intermediate goods for re-export, petroleum, investment goods, and military items - will not be affected. [redacted]

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**Meager Results from US-USSR Agriculture Working Group**

At last week's meeting of the Joint Working Group on Agricultural Economic Research and Information in Washington, the USSR demonstrated a limited willingness to exchange agricultural information. The Soviet delegation provided data on grain trade in 1972 and 1973 but implied that the same information will soon be available in a foreign trade handbook. Some new information on 1973 crops and plans for 1974 was also presented. In addition, they explained how agricultural statistics are gathered and outlined the schedule for reports. But the Soviets failed to respond to questions about the outlook for the 1974 grain crop. They dismissed the topic of forward estimates, saying, "We have the Plan." [redacted]

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**Publication of Interest**

**World Oil Refineries**

**(A(ER)74-61, June 1974,**

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This unclassified publication includes information on ownership, capacity, and location of all major refineries in the Free World.

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## INTERNAL ECONOMIC INDICATORS

## GNP\*

Constant Market Prices

	Latest Quarter	Percent Change from Previous		Average Annual Growth Rate Since	
		Quarter	1970	1 Year Earlier	Previous Quarter
United States	74 I	-1.6	3.9	0.2	-6.3
Japan	73 IV	1.4	8.3	7.0	5.8
West Germany	73 IV	-0.1	3.1	3.4	-0.3
France	73 III	0.9	5.6	6.1	3.8
United Kingdom	73 IV	-0.4	3.1	3.9	-1.4
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 IV	2.8	6.1	7.2	11.6

## WHOLESALE PRICES

Industrial

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	2.4	8.6	20.8	30.2
Japan	Apr 74	0.7	11.2	35.6	22.9
West Germany	Feb 74	2.3	6.5	11.9	26.5
France	Mar 74	3.4	12.4	31.7	64.2
United Kingdom	Apr 74	3.3	10.7	23.9	45.2
Italy	Nov 73	1.3	8.6	21.2	17.8
Canada	Feb 74	1.5	9.7	19.8	27.8

## INDUSTRIAL PRODUCTION\*

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier**
United States	Apr 74	0.4	4.6	0.7	-6.2
Japan	Mar 74	-0.7	7.8	5.7	-6.5
West Germany	Jan 74	-0.6	3.2	0.6	-4.3
France	Mar 74	-0.8	6.4	5.0	5.4
United Kingdom	Mar 74	2.0	1.7	-4.0	-21.1
Italy	Mar 74	-2.1	3.9	13.3	-2.8
Canada	Feb 74	1.2	6.7	4.5	8.7

## CONSUMER PRICES

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	0.6	5.8	10.3	12.9
Japan	Mar 74	0.7	10.9	24.0	39.4
West Germany	Mar 74	0.3	0.2	7.2	7.7
France	Mar 74	1.2	7.5	12.2	18.0
United Kingdom	Apr 74	3.4	10.3	15.2	27.0
Italy	Apr 74	1.2	9.2	16.3	26.6
Canada	Apr 74	0.7	6.0	9.9	11.4

## RETAIL SALES\*

Current Prices

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier**
United States	Apr 74	1.4	10.6	8.3	10.8
Japan	Nov 73	3.4	14.6	27.4	32.0
West Germany	Dec 73	0.5	7.8	5.8	7.6
France	Feb 74	0.3	7.0	12.9	29.0
United Kingdom	Jan 74	-1.3	11.5	13.1	16.9
Italy	Oct 73	0.6	16.2	29.1	56.7
Canada	Feb 74	3.4	12.0	14.0	18.0

## MONEY SUPPLY\*

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since	
		Month	1970	1 Year Earlier	3 Months Earlier**
United States	Apr 74	0.7	6.8	6.7	7.8
Japan	Jan 74	1.7	17.6	18.3	11.1
West Germany	Jan 74	0.1	8.9	0.6	9.8
France	Jan 74	1.1	13.2	12.3	18.7
United Kingdom	Apr 74	2.7	9.3	3.0	1.0
Italy	Oct 73	1.6	20.7	23.0	21.4
Canada	Mar 74	0.7	12.9	11.6	15.4

## MONEY-MARKET RATES

	Representative Rates	Percent Rate of Interest			
		Latest Date	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	3 May	8.50	6.75	7.88
Japan	Call money	15 Mar	12.50	5.50	12.00
West Germany	Interbank loans (3 Months)	29 Mar	11.38	N.A.	13.00
France	Call money	26 Apr	11.75	7.62	15.00
United Kingdom	Local authority deposits	26 Apr	13.63	7.28	15.81
Canada	Finance paper	12 Apr	10.00	5.75	8.88
Euro-Dollars	Three-month deposits	29 Mar	10.00	8.63	10.13

\*Seasonally adjusted.

\*\*Average for latest 3 months compared with average for previous 3 months.

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## EXTERNAL ECONOMIC INDICATORS

## EXPORTS\*

f.o.b.

	Latest Month	Cumulative		
		Million US \$	1974	1973
United States	Apr 74	8,230	30,624	20,908
Japan	Apr 74	4,207	15,293	10,941
West Germany	Mar 74	6,801	20,342	14,022
France	Apr 74	3,704	14,305	10,624
United Kingdom	Apr 74	3,112	10,814	8,801
Italy	Feb 74	2,095	4,061	3,063
Canada	Feb 74	2,458	4,002	3,941

## EXPORT PRICES

US\$

EXPORT PRICES US\$	Average Annual Growth Rate Since				
	Percent Change			1 Year Earlier	3 Months Earlier
	Latest Month	from Previous Month	1970		
United States	Feb 74	3.5	11.0	27.0	38.3
Japan	Nov 73	-0.8	13.2	27.4	11.0
West Germany	Feb 74	7.1	12.5	23.9	5.0
France	Jan 74	-5.9	11.1	18.9	-35.2
United Kingdom	Dec 73	0.1	8.7	17.4	12.0
Italy	Oct 73	2.1	11.6	23.7	29.1
Canada	Jan 74	4.6	11.3	31.5	63.3

## IMPORTS\*

f.o.b.

	Latest Month	Cumulative		
		Million US \$	1974	1973
United States	Apr 74	8,138	29,843	21,545
Japan	Apr 74	4,876	16,634	8,785
West Germany	Mar 74	4,934	14,297	11,197
France	Apr 74	4,141	15,362	10,092
United Kingdom	Apr 74	4,066	14,655	9,796
Italy	Feb 74	2,847	5,017	3,298
Canada	Feb 74	2,507	4,733	3,637

## EXPORT PRICES

National Currency

National Currency		Average Annual Growth Rate Since			
		Percent Change			
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Feb 74	3.5	11.0	27.6	38.3
Japan	Nov 73	3.6	4.8	14.9	37.1
West Germany	Feb 74	3.4	3.6	11.7	29.5
France	Jan 74	3.2	8.0	17.6	31.3
United Kingdom	Dec 73	3.1	9.8	18.8	33.0
Italy	Oct 73	2.4	8.3	20.4	17.0
Canada	Jan 74	3.7	9.6	30.5	56.7

## TRADE BALANCE\*

f.o.b./f.o.b.

	Latest Month	Cumulative (Million US \$)		
		Million US \$	1974	1973
United States	Apr 74	92	781	-837
Japan	Apr 74	-409	-1,342	2,156
West Germany	Mar 74	1,867	6,045	2,825
France	Apr 74	-377	-1,057	532
United Kingdom	Apr 74	-954	-3,841	-995
Italy	Feb 74	-752	-957	-235
Canada	Feb 74	-49	169	304

## IMPORT PRICES

National Currency

National Currency	Percent Change			Average Annual Growth Rate Since	
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Feb 74	5.4	15.6	40.6	71.4
Japan	Nov 73	3.7	4.6	19.8	31.0
West Germany	Feb 74	3.5	5.9	22.7	75.7
France	Jan 74	14.9	11.3	33.0	127.4
United Kingdom	Dec 73	4.5	16.3	42.6	50.6
Italy	Oct 73	3.4	14.0	38.7	30.8
Canada	Jan 74	2.7	6.8	17.3	25.7

## BASIC BALANCE\*\*

Current and Long-Term Capital Transactions

	Latest Period	Cumulative (Million US \$)		
		Million US \$	1973	1972
United States*	73 IV	200	1,186	-9,838
Japan	Apr 74	-1,005	-9,702	2,137
West Germany	Mar 74	1,176	3,950	4,566
France	73 IV	-352	-2,391	-369
United Kingdom	73 IV	-1,394	-3,164	-1,989
Italy	72 IV	800	N.A.	2,983
Canada	73 IV	27	378	1,155

## EXCHANGE RATES

Spot Rate

As of 24 May 74

	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 1971	19 Mar 1973	17 May 1974
Japan (Yen)	0.0036	29.65	10.16	-5.94	-0.72
West Germany (Deutsche Mark)	0.4047	60.98	30.42	14.29	-1.05
France (Franc)	0.2058	1.93	4.52	-6.62	0.34
United Kingdom (Pound Sterling)	2.4000	-14.00	-7.89	-2.48	-0.44
Italy (Lira)	0.0016	-1.19	-8.02	-10.62	0.32
Canada (Dollar)	1.0411	12.87	4.34	4.35	0.29

## OFFICIAL RESERVES

	Latest Month	Billion US \$		
		End of	1 Year Earlier	3 Months Earlier
United States	Mar 74	14.6	16.3	14.0
Japan	Apr 74	12.7	4.1	16.8
West Germany	Mar 74	32.9	8.8	32.3
France	Apr 74	8.1	4.4	11.5
United Kingdom	Apr 74	7.0	2.8	6.1
Italy	Mar 74	6.7	4.7	6.3
Canada	Apr 74	6.2	4.3	6.1

## TRADE-WEIGHTED EXCHANGE RATES\*\*\*

As of 24 May 74

	Dec 66	Percent Change from		
		18 Dec 1971	19 Mar 1973	17 May 1974
United States	-18.14	-8.71	-2.05	0.17
Japan	17.66	3.86	-8.07	-0.65
West Germany	34.16	16.98	11.91	-0.96
France	-22.99	-9.40	-11.84	0.71
United Kingdom	-34.92	-20.65	-6.24	-0.29
Italy	-24.44	-23.07	-16.15	0.69
Canada	9.23	2.63	4.27	0.39

\*Seasonally adjusted.

\*\*Converted into US dollars at current market rates of exchange.

29 May 1974

\*\*\*Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.